

**Department of Legislative Services**  
Maryland General Assembly  
2010 Session

**FISCAL AND POLICY NOTE**

Senate Bill 771 (Senator Gladden)  
Budget and Taxation

**Income Tax - Subtraction Modification - Furlough Days**

This bill creates a subtraction modification under the State income tax for State and county employees who were furloughed during the tax year. The amount of the subtraction modification is equal to \$500 for each day the employee is furloughed or does not work as a result of a temporary salary reduction, subject to an overall maximum of \$2,500. For tax year 2010, taxpayers may also include days an employee was furloughed or did not work due to a temporary salary reduction during the preceding tax year and the total subtraction modification may not exceed \$5,000.

The bill takes effect July 1, 2010, and applies to tax year 2010 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by at least \$17.6 million in FY 2011 and by \$10.7 million in FY 2012 due to subtraction modifications claimed against the personal income tax by eligible State employees. Additional significant revenue losses will occur due to subtraction modifications claimed by eligible county employees. General fund expenditures increase by \$21,300 in FY 2011 for one-time tax form changes and computer programming modifications.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	(\$17.6)	(\$10.7)	\$0	\$0	\$0
GF Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$17.7)	(\$10.7)	\$0	\$0	\$0

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** Local revenues decrease by at least \$11.1 million in FY 2011 and by \$6.7 million in FY 2012. Expenditures are not affected.

**Small Business Effect:** None.

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## Analysis

**Current Law/ Background:** No similar State subtraction modification exists.

State employees were furloughed in fiscal 2009 and 2010 and are furloughed under the proposed fiscal 2011 State budget. The fiscal 2011 furloughs will reduce State expenditures by an estimated \$108 million. In addition, several counties have recently furloughed or are proposing to furlough employees.

**State Revenues:** Subtraction modifications may be claimed beginning in tax year 2010. In tax year 2010, taxpayers may claim the subtraction modification for days furloughed in 2010 and 2009, subject to an overall limit of \$5,000. In tax year 2011 and beyond, the subtraction modification may be claimed only for days furloughed in the tax year with an overall limit of \$2,500. As a result, general fund revenues can decrease by at least \$17.6 million in fiscal 2011 and by \$10.7 million in fiscal 2012. This estimate assumes that State employees opt to take all of the proposed fiscal 2011 furlough days during calendar 2011 in order to maximize tax savings under the bill.

Additional, significant revenue losses will occur as a result of eligible county employees claiming the subtraction modification under the bill. To the extent furloughs are enacted in fiscal 2012 and beyond, significant revenue losses will occur beginning in fiscal 2013.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of \$21,300 in fiscal 2011 to add the subtraction modification to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

**Local Revenues:** Local income tax revenues decrease by about 3% of the amount of subtraction modifications claimed. Accordingly, local income tax revenues decrease by \$11.1 million in fiscal 2011 and by \$6.7 million in fiscal 2012. Additional significant local government revenue losses will occur as a result of subtraction modifications claimed by eligible county employees.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** HB 1239 (Delegate Rosenberg) - Ways and Means.

**Information Source(s):** Comptroller's Office, Department of Budget and Management,  
U.S. Bureau of Economic Analysis, Department of Legislative Services

**Fiscal Note History:** First Reader - March 15, 2010  
mpc/hlb

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